

A person with short brown hair, wearing a red hoodie, is seen from the side, looking at a large computer monitor. The monitor displays two financial charts: a blue line chart at the top and a white line chart below it. The person is holding a black smartphone in their left hand and a yellow pen in their right hand, which is pointing at the screen. The background is dark, suggesting an office or trading floor environment.

MODULE 2: BASIC TERMINOLOGY

Forex Foundations



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Basic Forex Terminology

Pips (Percentage in Point)

Definition: The smallest price movement in a currency pair, usually measured in the fourth decimal place. It represents the change in value between two currencies.

Lots

Definition: The standardized quantity in which forex trades are conducted. Different types include standard lots (100,000 units), mini lots (10,000 units), and micro lots (1,000 units).

Spread

Definition: The difference between the buying (ask) and selling (bid) prices of a currency pair. It represents the broker's fee for facilitating the trade.

Basic Forex Terminology

Margin

Definition: The amount of money required to open and maintain a leveraged position. It acts as a security deposit, ensuring traders can control larger positions with a smaller amount of capital.

Leverage

Definition: The ability to control a large position in the market with a relatively small amount of capital. While leverage magnifies potential profits, it also increases the risk of significant losses.

Bid Price

Definition: The price at which a trader can sell a currency pair. It is always lower than the ask price.

Basic Forex Terminology

Ask Price

Definition: The price at which a trader can buy a currency pair. It is always higher than the bid price.

Currency Pair

Definition: The pairing of two currencies in a trade. It consists of a base currency and a quote currency, and the exchange rate reflects the amount of quote currency needed to purchase one unit of the base currency.

Cross Currency Pair

Definition: A currency pair that does not include the U.S. Dollar (USD). Cross currency pairs involve the direct exchange between two other currencies.

Basic Forex Terminology

Central Banks

Definition: Financial institutions responsible for implementing monetary policy and regulating the money supply. Central banks play a crucial role in influencing currency values.

Commercial Banks

Definition: Financial institutions that provide services such as currency exchange, loans, and deposits. They act as intermediaries in the forex market.

Institutional Investors

Definition: Large entities, such as hedge funds and pension funds, that engage in substantial trading volumes. Their actions can significantly impact market trends.

Basic Forex Terminology

Retail Traders

Definition: Individual traders who participate in the forex market through online platforms provided by brokers. Retail traders are not institutional investors.

Brokers

Definition: Intermediaries that facilitate currency trades between retail traders and the interbank forex market. They offer trading platforms and access to the market.

Long Position

Definition: A position where a trader buys a currency with the expectation that its value will increase. In essence, it's a bet on the currency's appreciation.

Short Position

Definition: A position where a trader sells a currency with the expectation that its value will decrease. It's a speculative move betting on the currency's depreciation.

Basic Forex Terminology

Liquidity:

Definition: The degree to which an asset or security can be quickly bought or sold in the market without affecting its price. Higher liquidity is desirable for forex traders.

Liquidity Providers

Definition: Entities, often major banks, that ensure there is enough liquidity in the market for smooth operations. They contribute to the availability of buyers and sellers.

Carry Trade

Definition: A trading strategy where an investor borrows money in a currency with a low-interest rate and invests it in a currency with a higher interest rate to earn the interest rate differential.

Basic Forex Terminology

Drawdown

Definition: The peak-to-trough decline in a trader's or a fund's capital. It represents the percentage loss from the highest point to the lowest point.

Base Currency

Definition: The first currency in a currency pair. It represents the unit of exchange or the currency that the trader is buying or selling.

Quote Currency

Definition: The second currency in a currency pair. It represents the currency in which the exchange rate is quoted, and it is the currency being bought or sold.

Summary

Understanding these terms is crucial for navigating the forex market and making informed trading decisions.